An operational shift

Nick Martindale analyses the technological shifts that are needed among pension providers to ensure members' needs are met in the new savings environment

Summary

- Providers will need to look at both their member-facing and back-end systems in their bid to help in the accumulation and decumulation period following the new pension freedoms.
- Online modellers will also be important, allowing members to play around with various financial permutations.
- Current investment administration platforms were designed for mutual funds and don't easily lend themselves to managing fund of DC fund structures. Once changes have been made however, administration costs are expected to fall.

The government's much-heralded pensions freedoms reforms have been widely welcomed and have the potential to ensure pensions remain relevant for an ageing yet significantly more flexible, workforce in the future. Yet it is only now that the practicalities are being addressed, and for many providers it is how things will work from a technology perspective that is causing most concern.

Member-facing and back-end systems

The changes will mean providers need to look at both their member-facing and back-end systems. "The member needs help with modellers, both in the accumulation period and during decumulation," Equiniti director of pensions administration Paul Sturgess says.

"They need a more complete view of what they need to save and how they need to manage it in retirement. Back-end systems need work in integrating with flexible income products and in some cases to allow a series of partial disinvestments, given that they were designed for the old single point of retirement model."

From a member perspective, effective communication is particularly important. Research conducted by Mybenefitsatwork found the vast majority (95 per cent) of employers believe the responsibility lies with them to keep their staff informed about changes to pensions legislation; a view that is supported by three-quarters (75 per cent) of employees.

Providers will need to be able to offer systems that can help members easily assess their own individual position, and decide on – and implement – the most appropriate course of action. "Just making generic information available online is not enough," JLT Employee Benefits BenPal director Jonathan Underwood warns.

"Systems that hold individuals' data such as age, location, income, savings and expectations can deliver appropriate messages and comparisons of people in similar circumstances directly to the member of a scheme."

Online modellers will also be important, allowing members to play around with various financial permutations.

"Providers will need to offer 'what-if' and scenario-modelling tools, tax calculation capability and the ability to combine data on DC plan savings with that on members' other assets to provide a consolidated view of holdings and

projections," State Street global exchange in EMEA head JR Lowry advises. "The overall customer experience will need to operate seamlessly across different channels."

Providers also need to be able to enact decisions taken by members, points out systemsync chief marketing officer Chris Deeson.

"Policyholders with small pots will inevitably want cash: a simple click-through process with online identity checks and swift transfer payments will deliver money into their account more in line with the experience they get from online banking," he says.

"But for many policyholders a blended approach of options will be most suitable. Technologies that allow individuals to play through multiple scenarios and compare the potential outcomes can positively guide policyholders through the risks and tax consequences of their choices."

Pegasystems European insurance director Tony Tarquini suggests providers will eventually have to embrace systems that can operate more in the manner traditionally associated with bank accounts. "The biggest challenge in pensions is the move from relationships that are normally once a year at most through automated valuations to regular dealings," he says. "A wholesale move to digital self-service and a fundamental improvement in the efficiency and effectiveness of industry service levels is the only answer to this question."

Functional shifts

He believes this requires a shift towards implementing customer relationship management systems that can predict and anticipate customer needs and make suitable recommendations to customers; something that will also require changes to back-office and administration processes. "Firstly, providers need to separate out their policy administration systems (PAS) from those undertaking their customer relationship management (CRM) in the front office," he says.

"Too many insurers have tried to build out their PAS, which is basically just a warehousing system, to do everything and it has failed.

"Secondly, most pension providers currently operate massively siloed, legacy applications that are only usable by internal staff in contact centres," he adds. "The increased volume of customer interactions and expectations is currently being handled by building more siloes, employing additional staff and working everyone harder, and this is unsustainable."

In the longer-term, these systems will need to be overhauled, he believes, rather than continuing to bolt on solutions which are designed to fix a particular issue.

Investment administration systems will need re-evaluating too, Milestone Group head of life, pensions and platform Kevin Openshaw states, to cope with the demands of the DC world, where members might want to keep funds invested for longer, as well as realising some assets earlier.

"A one-fund-fits-all approach will not be adequate to retain assets so providers need to be able to launch numerous funds, manage asset allocations and cash flows in an automated and cost-effective manner to enable costs for funds to be maintained within the DC caps," he says.

"Current investment administration platforms were designed for mutual funds and don't easily lend themselves to managing fund of DC fund structures." Once changes have been made, however, admin costs should fall, he adds, as many funds are currently administered through manually-intensive processes involving spreadsheets.

At the heart of any system will need to be database applications that can accurately record and update information and automate processes reliably, Spence & Partners DC pension consultant Christopher Shortt adds.

"The software used by providers needs to be able to cope with multiple disinvestments and payments of lump sums throughout a member's retirement, including the recording of amounts, tax paid and lifetime allowance used up at each event," he points out.

Currently, it's still early days in terms of how providers are approaching these kinds of dilemma. Shortt believes providers will increasingly find themselves having to choose whether to build a new system completely from scratch or to update what they have. "If in-house development is out of the question then it falls to a choice between contracting a third-party developer or going to an off-the-shelf system provider," he says.

"For providers with an existing third-party system, their initial action may be to ask their system provider what they are developing to see if it adequately meets their needs while remaining within budgetary considerations. If a solution can't be delivered from that avenue, then the provider will need to look at solutions in the wider market."

Issues

In some cases, Sturgess adds, this could throw up some more fundamental issues about their approach to technology. "For some providers, it is about a sizable tweak to what is already a well-developed system, but for others who are already using suboptimal systems and administration solutions it raises much bigger questions," he says. "Do they need a whole new system? Do they need to outsource?" Having an unintegrated pre- and post-retirement solution will be very visible to consumers, he warns, and this could eventually result in people switching providers.

Deeson, meanwhile, believes there is a further reason why providers have not so far rushed to update or roll out new systems, particularly member-facing packages. "For providers, the barrier to member-friendly experiences is the risk aversion to non-advised pension freedom choices becoming the next generation of PPI claims," he says.

"I think we will see tentative steps in 2016, but for the larger providers we may not see anything revolutionary until 2017 or 2018. Technology advances only take place when the human decision-makers overcome their fears and hesitancy and choose to deploy it."

In the longer-term, though, providers will need to position themselves for the market in which they want to operate, State Street Global managing director and head of European defined contribution Nigel Aston believes.

"Some pension scheme members will wish to be accountable for their investment planning and performance to a greater degree than ever before, and pension providers who want to compete in this 'retailised' scenario will require a 'go big' approach in terms of the IT capabilities needed," he says.

"Other providers may see opportunity in a more 'institutionalised' scenario, with a low-cost, highly governed aggregating model rather than an individualised approach," he adds. "Choices will need to be made in terms of which business models to support, such as direct-to-consumer versus adviser-led and whether to manufacture or distribute products, or both. It's an exciting time in the market and one that is full of change."

Written by Nick Martindale, a freelance journalist